<u>Chief Financial Officers' Opinion on Adequacy of Balances and the Robustness of the Budget</u>

The Chief Financial Officer is required to make a statement on the adequacy of reserves and the robustness of the budget. This is a statutory duty under section 25 of the 2003 Local Government Act which states the following:

(1) Where an authority to which section 32 or 43 of the Local Government Finance Act 1992 (billing or major Precepting authority) or section 85 of the Greater London Authority Act 1999 (c. 29) (Greater London Authority) applies is making calculations in accordance with that section, the chief finance officer of the authority must report to it on the following matters-

> *(a) The robustness of the estimates made for the purposes of the calculations, and*
>
> *(b) The adequacy of the proposed financial reserves.*

(2) An authority to which a report under this section is made shall have regard to the report when making decisions about the calculations in connection with which it is made.

<u>Summary Report of the Resources Director (as Chief Finance Officer for the Authority)</u>

I have examined the budget proposals contained in this report, and believe that whilst the spending and service delivery proposals contained within are even more challenging than ever before, they are nevertheless achievable and deliverable given the political will to implement the changes, good management, sound financial and performance monitoring, and initiatives to support and enable more efficient working practices are delivered. I am satisfied that the requisite management processes exist within the Council to deliver this budget, and to identify and deal with any problems which may unexpectedly arise throughout the year.

However, the corporate and financial plan relies to a much greater degree on the delivery of strategies and action plans within individual service and financial plans as well as corporately and it will therefore be necessary to give much higher priority to the monitoring and review of these plans in the performance management processes of the Council.

The level of exposure and commitment in our capital programme in the coming years remains particularly challenging. Solid monitoring, review and programming of schemes will need to be continued and refined, as will individual project management processes in order to properly manage and control the whole programme within financial tolerances.

On the matter of general reserves, I have continued to adopt the approach to evidence the requisite level by use of internal risk assessment. The 2007-08 budget contains no reliance on the use of unallocated reserves. The Council was advised to take a rigorous and critical approach to any further requests for uses of unallocated reserves during 2006-07 to maintain the reserves strategy. It is essential that reserves in 2007-08 and the foreseeable future be used ONLY if risks materialise AND cannot be contained by management or policy actions. This is due to the heightened level of risk the Council is exposed to over the next 3 years over and above what can be considered the normal year to year service and budget risks and, despite now establishing the 'Exceptional risk reserve' there is a clear danger that reserves could be severely depleted by any one of a number of key risks materialising. It will be essential for any exceptional use of reserves for the Council to put in place arrangements in future years' budgets to recover the level of reserves within 3 years which will place more pressure on revenue and capital budget.

From 2001/2, the Council adopted a risk management approach, which assesses the level of reserves required against a corporate assessment of the risk being carried. The assessed risk has increased from £8m to around £9M on the normal year to year risks and the Executive are advised to bear this figure in mind when recommending the use or replenishment of general reserves over the planning period. In addition, the Council faces a heightened risk from some exceptional issues, including:

- Bath Spa Claims Management Costs which are chargeable to revenue. Whilst these costs are funded via the Exceptional risk reserve , these costs remain a concern and a major revenue budget risk. The Council and the Executive are advised to take every opportunity to add to reserves from budget underspends and savings. Future costs may need to be a draw on revenue reserves and must be paid back from future years' budgets over 3 years, putting serious pressure on funding for services.

- Single Status Ongoing Costs. No provision has been made for additional ongoing costs and, to the extent offsetting savings are not found from 2007/08, the costs will need to be funded from reductions in services and/or increased fees and charges in addition to financial plan targets and savings required to keep Council Tax rises below 5% each year. To the extent that backpay and protection costs prove to be greater than provided for from the already identified sources of funding and further offsetting savings these will also need to funded from reductions in services and/or increased fees and charges in addition to financial plan targets and savings required to keep Council Tax rises below 5% each year.

- Capital Receipts. The capital and revenue budgets rely on a challenging set of targets for receipts (£5.2m p.a. ongoing, specific receipts for capital schemes and a further £10.249m of exceptional receipts prior to 31 March 2007). The Council and Council Executive will need to exercise great discipline to limit capital programme commitments and to achieve this level of receipts which are only deliverable within such a climate. All receipts will be subject to optimising value for money and best consideration and will not be proposed on the basis of a "quick fix" but rather to meet the aspirations of a demanding capital programme.

These are serious exceptional risks which if they crystallise could eliminate the Council's reserves and leave its financial standing seriously in question.

My recommendation that the budget is reasonably robust and reserves are adequate are on condition that the Council and the Council Executive:

- Recognise in the planning approach that the level of reserves and corporate risk assessment need to be regularly reviewed in the light of changing circumstances and that it may not be possible to match the two at any single point in time. This plan needs to show the Council's commitment to bring the level of reserves up to a level which should cover most identified risks during the planning period. This approach is pragmatic, and shows a clear commitment to prudent contingency planning. It must be noted however, that this sum does still leaves the Council exposed to the exceptional risks identified and, if those crystallise, to reserves being inadequate.

- Limit its capital commitments so that unsupported borrowing is not increased above the level in the proposed and indicative programmes and ideally reduced further as a result of additional capital resources.

- Apply a robust approach to capital receipts included in the plan consistent with optimising value.

- The Executive Members, Directors and Assistant Directors achieve their cash limits for 2007/08.

- Taking every opportunity to maximise reserves.

- Rejecting any further calls on reserves other than for those for risks that have been identified or are unforeseen and cannot be dealt with through management or policy actions.

- That where there is a draw down on reserves this is paid for within 3 years

- That the Council supports and resources a service 'efficiency and transformation team' to develop and support implementation of service cost reductions

Processes

Budget estimates are exactly that - estimates of spending and income made at a point in time. This statement about the robustness of estimates cannot give a guarantee about the budget but gives members reasonable assurances that the budget has been based on the best available information and assumptions available at the time.

In order to meet the requirement on the robustness of estimates a number of key processes have been put in place, including:

- The issuing of clear guidance to Directorates on preparing budgets.
- The development of Council wide risk assessment.
- The use of budget monitoring to identify risks.
- The Council's s151 Officer providing advice throughout the process of budget preparation and budget monitoring.
- The Directors' review of their budgets and budget sensitivities.
- Directors reporting on the robustness of estimates to the relevant Overview and Scrutiny Panels.

Notwithstanding these arrangements, which are designed to test the budget throughout its various stages of development, considerable reliance is placed on the Directors and Assistant Directors having proper arrangements in place to identify issues, project costs, service demands, to consider value for money and efficiency, and to implement changes in their service plans. This is supported by appropriately qualified financial advisors.

Corporate and departmental processes will continue to be improved in future years. Improvement in these processes will assist in prevention or earlier identification of issues to be dealt with in the budget and Financial Plan. Nevertheless in preparing such a complex budget unforeseen issues may arise throughout the year and the period of the Financial Plan.

Robustness of Estimates

The 2007/08 budget and service planning process continues the need to link financial resources to corporate priorities and risks. In addition to improving efficiency, there are clearly choices for the Council in this respect:

- To increase financial resources to meet demand and reduce risk; or
- To reduce (where possible) service levels and standards, frequency of service delivery, and eligibility for services.

As part of developing the budget, Members of the administration have considered these options and they are reflected in the proposed budget.

Most notably the Council has had to address major cost increases and pressures as well as corporate priorities including;

- Pensions.
- Single Status - a key issue in 2007/08.
- Waste Strategy/Concessionary Fares.

- The reliance on unsupported borrowing within the capital programme. Steps have been taken to reduce the impact of these factors but the Council will need to continue to improve planning, phasing of costs, monitoring, and reducing unsupported borrowing, ensuring a balanced and robust strategy for the use of current capital assets to support investment needs, and particularly the emerging development programmes.

- The cost of Major Projects.

Given the risks facing the Council I have introduced further arrangements to assist in taking a view on the Robustness of Estimates and the adequacy of reserves.

These assumptions and potentially changing circumstances will require the forecasts for future years to be reviewed early in each financial year leading to more detailed budgets being prepared for the next financial year and the medium term during the autumn of each financial year.

Given all these factors I, as the Council's Section 151 Officer, consider the estimates for 2007/08 to be sufficiently robust, challenging and conditional for approval by the Council.

Over the medium term, the Financial Plan reflects the continuing impact of the draft budget and only minimal growth in relation to issues that are unavoidable. Within the tight financial climate over the medium term it is very likely that service improvement and reasonable Council Tax levels, without key service reductions, will only be achieved through improving efficiency and clear prioritisation.

The Capital Budget

Projects, included in the capital programme, were prepared by Assistant Directors and managers in line with financial regulations and guidance. All projects were agreed by the relevant strategic director and Executive Member and are fully funded.

Projects have been costed at outturn prices with many subject to tender process after inclusion in the programme. This may lead to variance in the final cost.

Directorates are required to work within the given cash envelope so any under or over provision must be found within these limits.

In addition, I will require a clear commitment from the Council to:

- Minimise further commitments on the capital programme without any further capital income and/or reprioritisation of the proposed programme.

- Very carefully consider and balance the use of capital receipts over and above those planned in terms of reducing unsupporting borrowing, new service based schemes and development projects to keep the capital programme sustainable.

However, the further exceptional risks identified may have a potential call on reserves which may reduce reserves to NIL within the next 2-3 years. The Council is advised to be cautious about these risks and commit to restoring any draw down on reserves within a 3 year period.

In these circumstances, I will require the Council, Directors and Heads of Service:

- To remain within their service budget for 2007/08 and within financial plan targets for future years with a strict adherence to recovering overspends within future years' financial plan targets (i.e. services will need to absorb on overspends, pressures and service plan targets).

- Repayment to reserves over 3 years should these risks materialise.

- Direct any savings/underspends to reserves, including any savings from a continuing Capital Review.

Estimated Available Revenue Reserves

Earmarked Revenue Reserves

A detailed review of the Council's earmarked revenue reserves has been undertaken by each of the Departments and is reflected in Annex 5 of this Appendix.

Non-Earmarked (General) Revenue Reserves

Detailed in the table below is the estimated level of non-earmarked revenue reserves that will be available to support the General Fund revenue budget in future years.

	2007/08 £'000	2008/09 £'000	2009/10 £'000
Estimated Reserves @ 1st April each year	5,778	5,517	7,278
Contribution included in the Financial Plan	550	550	550
Additional contribution from service savings targets to restore reserves	664	664	664
Senior Management Restructuring savings	73	73	73
Estimated Overspend 2006/07	-400	-	-
Planned Contributions from adjustments in the Capital Programme (from 2006/07 Budget Report)	252	474	474
Transfer to Exceptional Risk Reserve	-1,400	-	-
Estimated Reserves @ 31st March each year	5,517	7,278	9,039

Assessment of Adequacy of Reserves

Under the Local Government 2003 Act the Secretary of State has reserve powers to set a minimum level of reserves. The most likely use of this power is where an authority is running down its reserves against the advice of their s151 Officer.

Determining the appropriate levels of reserves is not a precise science or a formula e.g. a %age of the Council's budget. It is the Council's safety net for risks, unforeseen or other circumstances and must last the lifetime of the Council unless contributions are made from future years' revenue budgets. The minimum level of balances cannot be judged merely against the current risks facing the Council as these can and will change over time.

Determining the appropriate levels of reserves is a professional judgement based on local circumstances including the overall budget size, risks, robustness of budgets, major initiatives being undertaken, budget assumptions, other earmarked reserves and provisions, and the Council's track record in budget management.

The consequences of not keeping a minimum prudent level of reserves can be serious. In the event of a major problem or a series of events, the Council would run a serious risk of a deficit or of being forced to cut spending during the year in a damaging and arbitrary way.

The recommendation on the prudent level of reserves has been based on the robustness of estimate information and the Corporate Risk Register. In addition, the other strategic, operational and financial risks taken into account when recommending the minimum level of unallocated General Fund reserves include:

- There is always some degree of uncertainty over whether the full effects of any economy measures and/or service reductions will be achieved. Directors have been requested to be prudent in their assumptions and that those assumptions, particularly about demand led budgets, will hold true in changing circumstances.

- The Bellwin Scheme Emergency Financial Assistance to Local Authorities provides assistance in the event of an emergency. The Local Authority is able to claim assistance with the cost of dealing with an emergency over and above a threshold set by the Government.

- The extent to which the Council is dependent on traded income.

- The risk of major litigation, both current and in the future.

- Risks in the inter-relation between the NHS and Social Service authorities and in the growth of other partnerships.

- Unplanned volume increases in major demand led budgets, particularly in the context of high and accelerating growth.

- The need to retain a general contingency to provide for any unforeseen circumstances or emergencies, which may arise.

- The need to retain reserves for general day-today cash flow needs.

The recommendations of the Council's s151 Officer are:

- The Council maintains an absolute minimum prudent level of General Fund reserves (excluding schools) of £5.2m at the end of any financial year. The minimum level is designed to cope with risk and unforeseen circumstances that cannot be addressed by management or policy action within the year. Management and policy action should be the first actions taken before any resort to reserves.

- That an optimal level of general fund reserves is £9m under normal circumstances and should be achieved by 31 March 2010. The optimal level of reserves is designed to allow the Council to withstand a measure of changes in circumstances during the year or minor variations in projected resources or spending over the period of the Financial Plan.

- That the Council faces a period of heightened risk and must therefore take every opportunity to increase reserves, and must restore reserves used to meet risks that crystallise within a period of 3 years.